

STATE OF TENNESSEE

Office of the Attorney General



2005 MAR 30 PM 2:01

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March 30, 2004

Chairman Pat Miller  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243

**IN RE: Docket #04-00034, PETITION OF CHATTANOOGA GAS COMPANY FOR  
APPROVAL OF ADJUSTMENT OF ITS RATES AND CHARGES AND REVISED TARIFF.**

Dear Chairman Miller:

Enclosed is an original and fourteen copies of the Affidavit of Daniel W. McCormac on behalf of the Consumer Advocate of the Attorney General. We request that these documents be filed with the TRA in this docket. Please be advised that all parties of record have been served copies of these documents. If you have any questions, kindly contact me at (615) 741-7833. Thank you very much.

Sincerely,

A handwritten signature in black ink that reads "Vance L. Broemel".

VANCE L. BROEMEL

Assistant Attorney General

Enclosures

64421

BEFORE THE TENNESSEE REGULATORY AUTHORITY  
AT NASHVILLE, TENNESSEE

IN RE: PETITION OF CHATTANOOGA GAS COMPANY FOR APPROVAL OF  
ADJUSTMENT OF ITS RATES AND CHARGES AND REVISED TARIFF

DOCKET NO. 04-00034

AFFIDAVIT

I, Daniel W. McCormac, Coordinator of Analysts for the Consumer Advocate and Protection Division of the Attorney General's Office, hereby certify that the attached "REVISED EXHIBIT CAPD-DM" reflects the TRA's original decision in this docket except for the proposed revisions in capital structure as recommended by Dr. Steve Brown. After adjustments to taxes, rate base, and other items to reflect Dr. Brown's revised recommendation on capital structure, the revenue requirements would be \$392,292 instead of the original finding by the TRA of \$642,777.

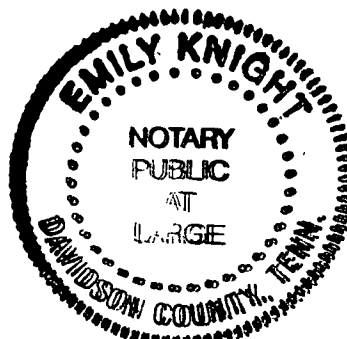
Daniel W. McCormac

DANIEL W. McCORMAC

Sworn to and subscribed before me  
this 29<sup>th</sup> day of March, 2005.

Emily Knight  
NOTARY PUBLIC

My commission expires. Sept. 22, 2007



~~My Commission Expires~~ SEPT 22, 2007

Chattanooga Gas Company  
Index to Schedules  
For the 12 Months Ending June 30, 2005

	<u>Schedule No</u>
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Chattanooga Gas Company  
Revenue Deficiency  
For the 12 Months Ending June 30, 2005

Line No.		<u>CAPD / TRA</u>		<u>Company</u>	<u>Difference</u>
1	Rate Base	95,285,585 A/		95,564,212 E/	(278,627)
2	Operating Income at Present Rates	6,585,001 B/		5,775,591	809,410
3	Earned Rate of Return	6.91%		6.04%	0.87%
4	Fair Rate of Return	7.16% C/		8.84%	-1.68%
5	Required Operating Income	6,822,448		8,447,876	(1,625,428)
6	Operating Income Deficiency	237,447		2,672,285	(2,434,838)
7	Gross Revenue Conversion Factor	<u>1.652121</u> D/		<u>1.652130</u>	<u>(0.000009)</u>
8	Revenue Deficiency (Surplus)	<u>392,292</u>		<u>4,414,963</u>	<u>(4,022,671)</u>

A/ Schedule 2, line 11

B/ Schedule 6, line 15

C/ Schedule 12, line 5

D/ Schedule 11, line 10

E/ Company Forecast

Chattanooga Gas Company  
Comparative Rate Base  
For the 12 Months Ending June 30, 2005

Line No.		CAPD	Company	B/	Difference
1	Utility Plant in Service	164,561,353	164,561,353		-
2	Construction Work in Progress	3,544,977	3,544,977		-
3	Working Capital	12,946,846 A/	13,225,473		(278,627)
4	Total Additions	<u>181,053,176</u>	<u>181,331,803</u>		<u>(278,627)</u>
5	Accumulated Depreciation	71,307,914	71,307,914		-
6	Accumulated Deferred Income Taxes	12,012,158	12,012,158		-
7	Contributions In Aid of Construction	2,161,125	2,161,125		-
8	Customer Advances for Construction	286,394	286,394		-
9	Pre-1971 Unamortized Investment Tax Credit	<u>-</u>	<u>-</u>		<u>-</u>
10	Total Deductions	<u>85,767,591</u>	<u>85,767,591</u>		<u>-</u>
11	Rate Base	<u>95,285,585</u>	<u>95,564,212</u>		<u>(278,627)</u>

A/ Schedule 3, Line 13

B/ Company Exh MJM-3

Chattanooga Gas Company  
Comparative Working Capital  
For the 12 Months Ending June 30, 2005

Line No.		CAPD	Company B/	Difference
1	Lead Lag Results	1,354,783 A/	1,633,410	(278,627)
2	Materials and Supplies	170,409	170,409	-
3	Gas Inventories	14,193,526	14,193,526	-
4	Prepayments	20,358	20,358	-
5	Other Accounts Receivable	57,547	57,547	-
6	Deferred Rate Case	250,000	250,000	- C/
7	Total Additions	16,046,623	16,325,250	(278,627)
8	Reserve for Uncollectible Accts.	435,822	435,822	-
9	Customer Deposits	1,869,853	1,869,853	-
10	Accrued Interest on Customer Deposits	794,102	794,102	-
11	Other Liabilities	-	-	-
12	Total Deductions	3,099,777	3,099,777	-
13	Working Capital	12,946,846	13,225,473	(278,627)

A/ Schedule 5, Line 7

B/ Company Exh MJM-3

C/ Excludes rate case expense amortization per Exh MJM-3, Sch 2

Chattanooga Gas Company  
Working Capital Expense Lag  
For the 12 Months Ending June 30, 2005

Line No		Amount A/	Lag A/	Dollar Days
1	Purchased Gas Expense	63,221,551	39 66	2,507,366,713
2	Salaries and Wages	2,889,643	12 00	34,675,716
3	Pension Expense	155,166	166 56	25,844,449
4	Employee Benefits - Insurance	42,552	-	-
5	Allocated Costs	6,485,216	38 71	251,042,711
6	Uncollectible Accounts Expense	327,355	-	-
7	Other Operation and Maintenance Exp	3,049,079	34 60	105,498,144
8	Depreciation Expense	5,194,810	-	-
9	Taxes Other Than Income Taxes	3,419,475	177 78	607,914,266
10	State Income Tax - Current	250,984	59 25	14,870,821
11	State Income Tax - Deferred	118,828	-	-
12	Federal Income Tax - Current	847,326	37 75	31,986,549
13	Federal Income Tax - Deferred	1,014,537	-	-
14	Interest on Customer Deposits	112,191	-	-
15	Interest Expense - Short-term Debt	409,728	(23.34)	(9,563,052)
16	Interest Expense - Long-term Debt	2,963,382	93.38	276,720,583
17	Preferred Dividends	-	66 18	-
18	Common Equity	3,453,333	-	-
19	Total Cost of Service	<u>93,955,156</u>	<u>40 94</u>	<u>3,846,356,899</u>
20	Daily Cost of Service	<u>257,411</u>		

A/ Company workpapers

Chattanooga Gas Company  
Lead Lag Results  
For the 12 Months Ending June 30, 2005

<u>Line No</u>		<u>Amount</u>	
1	Revenue Lag	46.05	A/
2	Expense Lag	40.94	B/
3	Net Lag	5.11	
4	Daily Cost of Service	257,411	C/
5	Operating Funds Advanced	1,315,830	
6	Less: Incidental Collections	(38,953)	A/
7	Lead Lag Results	<u>1,354,783</u>	

A/ Company Forecast

B/ Schedule 4, Line 19

C/ Schedule 4, Line 20



Chattanooga Gas Company  
Income Statement at Current Rates  
For the 12 Months Ending June 30, 2005

Line No		CAPD	Company D/	Difference
1	Revenues - Sales & Transportation	92,444,773	92,444,773	-
2	Cost of Gas	63,221,551	63,221,551	- F/
3	Base Revenues	29,223,222	29,223,222	-
4	Forfeited Discounts Revenue	577,099	577,099 E/	-
5	Other revenues	396,149	396,149	-
6	AFUDC	142,441	142,441	-
7	Operating Margin	30,338,911	30,338,911	-
8	Other Operation and Maintenance	12,949,011 A/	14,356,458	(1,407,447)
9	Interest on Customer Deposits	112,191	112,191	-
10	Depreciation and Amortization Exp.	5,194,810	5,194,810	-
11	Taxes Other Than Income	3,419,475 B/	3,419,475	-
12	State Excise Tax	344,417 C/	245,316	99,101
13	Federal Income Tax	1,734,007 C/	1,235,070	498,937
14	Total Operating Expense	23,753,910	24,563,320	(809,410)
15	Net Operating Income for Return	6,585,001	5,775,591	809,410

Reconciliation

Revenues - Sales & Transportation	92,444,773	92,444,773	-
Forfeited Discounts Revenue	577,099	577,099	-
Other revenues	396,149	396,149	-
AFUDC	142,441	142,441	-
Total Revenues	93,560,462	93,560,462	-

A/ Schedule 8, Line 30

B/ Schedule 9, Line 7

C/ Schedule 10, Line 12 & Line 18

D/ Company Exh MJM-1, MJM-2

E/ Exh PGB-6, P 7 of 14

F/ Credit for "non-jurisdictional" sales

Chattanooga Gas Company  
Income Statement at Proposed Rates  
For the 12 Months Ending June 30, 2005

Line No.		Current Rates	Rate Adjustments	Proposed Rates
1	Revenues - Sales & Transportation	92,444,773	392,292 B/	92,837,065
2	Cost of Gas	63,221,551	-	63,221,551
3	Base Revenues	29,223,222	392,292	29,615,514
4	Forfeited Discounts Revenue	577,099	2,402 C/	579,501
5	Other revenues	396,149	-	396,149
6	AFUDC	142,441	-	142,441
7	Operating Margin	<u>30,338,911</u>	<u>394,694</u>	<u>30,733,605</u>
8	Other Operations and Maintenance	12,949,011 A/	3,995 C/	12,953,006
9	Interest on Customer Deposits	112,191	-	112,191
10	Depreciation and Amortization Exp.	5,194,810	-	5,194,810
11	Taxes Other Than Income	3,419,475	-	3,419,475
12	State Excise Tax	344,417	25,395 C/	369,812
13	Federal Income Tax	1,734,007	127,856 C/	1,861,863
14	Total Operating Expense	<u>23,753,910</u>	<u>157,246</u>	<u>23,911,157</u>
15	Net Operating Income for Return	<u>6,585,001</u>	<u>237,447</u>	<u>6,822,448</u>
Reconciliation:				
	Revenues - Sales & Transportation	92,444,773	392,292	92,837,065
	Forfeited Discounts Revenue	577,099	2,402	579,501
	Other revenues	396,149	-	396,149
	AFUDC	142,441	-	142,441
	Total Revenues	<u>93,560,462</u>	<u>394,694</u>	<u>93,955,156</u>

A/ Schedule 8, Line 30

B/ Schedule 1, Line 8

C/ Line 1 x Schedule 11 (appropriate conversion factor effects)

Chattanooga Gas Company  
Operation & Maintenance Expenses  
For the 12 Months Ending June 30, 2005

Line No.		CAPD	Company	A/	Difference
1	Salaries and Wages	2,889,643	2,889,643		- B/
2	Allocated Costs	6,602,649	7,136,452		(533,803) C/
3	Production Expense	-	-		-
4	Storage Expense	521,352	521,352		-
5	LNG Maintenance	-	-		-
6	Distribution Expense	1,153,546	1,153,546		-
7	Distribution - CIE	-	-		-
8	Distribution - Maintenance	-	-		-
9	Customer Acc. Exp. (Excl. Uncol.)	48,447	48,447		-
10	Uncollectible Accounts Expense	323,360	963,225		(639,865) D/
11	GTI Funding	-	-		-
12	Customer Service	-	-		-
13	Sales Expense	-	-		-
14	Sales Promotion Expense	209,654	209,654		-
15	Pension Expense	155,166	155,166		- B/
16	Injuries and Damages	-	-		-
17	Employee Benefits - Insurance	42,552	42,552		- B/
18	Employee Savings Plan	-	-		-
19	Other Employee Benefits	-	-		-
20	Property Insurance	-	-		-
21	Other Administrative and General Exp	1,002,642	1,236,421		(233,779) E/
22	Reg. Comm. Expense	-	-		-
23	Outside Services	-	-		-
24	Misc. General	-	-		-
25	Misc. Expense	-	-		-
26	Rents	-	-		-
27	Training	-	-		-
28	Transferred Credit	-	-		-
29	Corporate Office Allocation Adjust.	-	-		-
30	Total O&M Expense	<u>12,949,011</u>	<u>14,356,458</u>		<u>(1,407,447)</u>

A/ Company Forecast (MJM-2)

B/ Excludes 10% related to unsupported additional employees per testimony of MDC & DWM

C/ DR# 135

D/ Exclude Uncollectible Accounts ratio x gas costs ( 0 010121 x 63,221,551 )  
Sch 11, Line 4 Sch 6, Line 2

E/ Excludes rate case expense amortization per Exh MJM-2, Sch 2, PUHCA findings of \$100,000, and \$108,779 of OPEBS cost reductions

Chattanooga Gas Company  
Taxes Other Than Income Taxes  
For the 12 Months Ending June 30, 2005

Line No.		CAPD	Company <sup>A/</sup>	Difference
1	Property Tax	1,911,201	1,911,201	-
2	State Gross Receipts Tax	672,239	672,239	-
3	Payroll Taxes	215,989	215,989	- B/
4	Franchise Tax	321,246	321,246	-
5	Other General Taxes	298,800	298,800	-
6	TRA Utility Fee	-	-	-
7	Total Taxes Other Than Income Taxes	<u>3,419,475</u>	<u>3,419,475</u>	<u>-</u>

A/ Company Forecast

B/ Excludes 10% related to unsupported additional employees per testimony of MDC & DWM

Chattanooga Gas Company  
Excise and Income Taxes  
For the 12 Months Ending June 30, 2005

Line No.		Attrition Amount		Proposed Rates Attrition Amount A/
1	Operating Margin	30,338,911	A/	30,733,605
2	Other Operation and Maintenance	12,949,011	A/	12,953,006
3	Depreciation and Amortization Expense	5,194,810	A/	5,194,810
4	Taxes Other Than Income	3,419,475	A/	3,419,475
5	NOI Before Excise and Income Taxes	8,775,615		9,166,314
6	less Interest on Customer Deposits	112,191	A/	112,191
7	less Interest Expense	3,373,110	B/	3,373,110 B/
8	Pre-tax Book Income	5,290,314		5,681,013
9	Schedule M Adjustments	8,407		8,407
10	Excise Taxable Income	5,298,721		5,689,420
11	Excise Tax Rate	6.50%		6.50%
12	Excise Tax	344,417		369,812
13	Pre-tax Book Income	5,290,314		5,681,013
14	Excise Tax	344,417		369,812
15	Schedule M Adjustments	8,407		8,407
16	FIT Taxable Income	4,954,305		5,319,608
17	FIT Rate	35.00%		35.00%
18	Federal Income Tax Expense	1,734,007		1,861,863

A/ Schedule 7

B/ Rate Base \* Weighted Cost of Debt

(Schedule 2, Line 11 \* Schedule 12 Line 1 + Line 2)

Chattanooga Gas Company  
Revenue Conversion Factor  
For the 12 Months Ending June 30, 2005

<u>Line No</u>		<u>Amount</u>		<u>Balance</u>
1	Operating Revenues			1.000000
2	Add: Forfeited Discounts	0.006123	A/	<u>0.006123</u>
3	Balance			1.006123
4	Uncollectible Ratio	0.010121	A/	<u>0.010183</u>
5	Balance			0.995940
6	State Excise Tax	0.065000	B/	<u>0.064736</u>
7	Balance			0.931204
8	Federal Income Tax	0.350000	B/	<u>0.325921</u>
9	Balance			<u>0.605283</u>
10	Revenue Conversion Factor ( 1 / Line 9)			<u><u>1.652121</u></u>

A/ Exhibit MJM-1, Schedule 3

B/ Statutory rate

Chattanooga Gas Company  
Cost of Capital  
For the 12 Months Ending June 30, 2005

Line No.		Ratio	A/ Cost	B/ Weighted Cost
1	Short Term Debt	18.40%	2 31%	0.43%
2	Long Term Debt	46 10%	6.74%	3.11%
3	Preferred Stock	0.00%	8.54%	0.00%
4	Stockholder's Equity	<u>35.50%</u>	10 20%	<u>3 62%</u>
5	Total	<u>100.00%</u>		<u>7.16%</u>

A/ Supplemental Testimony of SNB

B/ TRA Findings

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the Affidavit of Dan McCormac re Recon-2 has been served via first-class U.S. Mail, postage prepaid, this 30<sup>th</sup> day of March, 2005, upon:

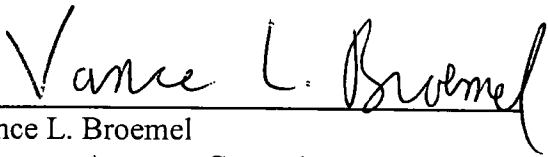
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